



On-going Debt Administration

The Deal has closed... and the dust has settled... Now What?

**California Debt and
Investment Advisory Commission
Fundamentals of Debt Financing**

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Documents are signed, Bonds are delivered, and the funds have been wired,... Now What ?

All of the duties below revolve around the issuer, most include the trustee who can or should assist you in the process.

We'll talk about the following today:

- Investment of the bond proceeds
- Spending the bond proceeds through construction in a timely manner and in accordance with tax law
- On-going payment of debt service until the last bondholder is paid
- Processing of covenant certifications in a timely manner: budget, insurance, continuing disclosure, arbitrage calculations and other filings
- Rating agency, insurer, or liquidity provider updates
- Monitoring of existing debt for possible refunding or interest rate mode change opportunities

The Trustee's Agency Functions... An extension of the Issuer

Prior to an event of default we perform certain administrative duties on the issuer's behalf

What does the trustee do for you... ?

- Custodian/safekeeping agent of your bond proceeds
- Accounting functions as they administer funds established under the indenture
- Construction fund accounting manager processing payments as you build your project
- Debt service billing and collection of revenues or payments for eventual payment to bondholders
- Compliance Manager monitoring certain covenants contained in the indenture and governing documents

Trustee's Agency Functions vs. The Issuers Responsibilities

Trustee's duties defined within the Indenture with no implied duties. While a trustee will monitor and assist the issuer, the responsibility to deliver is yours.

- While they safe-keep your bond proceeds, a trustee is not an investment manager or advisor unless you pay them
- The issuer certifies that all construction payments are valid, the trustee simply tracks your certification and payment
- The issuer prepares all certifications and reports pertaining to covenant requirements, while the trustee verifies your compliance
- While you must fund the repayment of principal and interest it should be the trustee who provides timely notice of amounts payable
- Any rating agency, insurer or liquidity provider updates do not typically flow through the trustee
- It is you and your financial advisor/underwriter's duty to monitor for refunding or interest rate mode change opportunities

Pre-Closing... Before its Too Late

You will work within the frame of the governing documents for the next 20 years. Are the documents friendly to your “real world” environment?

You will work very closely with the trustee for the next 20 years, have you sought their input pertaining to the documents?

Things to consider...

- Establishment of trust accounts
- Waterfall of revenue or lease payments
- Document and invoice requirements for construction disbursements
- Permitted investment language
- Compliance requirements
- Covenant restrictions
- Pre-payment opportunities
- Timing requirements for all of the above

Investment of Your Bond Proceeds within Your Trust Accounts

Monitor your trustee statements to track your bond proceeds, as you attempt to maximize your earnings potential

- A trustee does not perform investment advisory/management services for free
- Permitted Investment language of the indenture is your universe
- Liquidity to meet your needs for construction and debt service
- Always ensure a back-up investment vehicle is available in the absence of specific investment direction...write it into the indenture
- Settlement procedures and timing requirements of investment securities
- Monitoring the market value of investments such as GIC's, LAIF, or CAMP vs. securities with a CUSIP number
- Proper tracking and transfer of interest earnings...rebate considerations
- Internet access to your trustee statements...download to your spreadsheets...who else needs to see the statements

The Construction or Project Fund Phase

**Payment of requisitions to contractors as you build your project.
Be aware of the following:**

- Investment liquidity requirements to match your anticipated draw down schedule
- Authorized disbursements and signatures required as dictated in the indenture...verification and authority
- Vendor payments and timing requirements to those contractors building your project
- How extensive do you want your trustee's role to be...payments to vendors vs. reimbursement to issuer
- Requisition's delivered to the trustee to include invoice's, they become your file cabinet, or issuer maintains
- Completion certificates and timing of completion requirements...arbitrage considerations

Debt Service Requirements

The timely payment of principal and interest to your bondholders makes everyone happy.

- Debt service billing and collection of tax revenue, lease payments, etc., for eventual payment to bondholders. Does the timing of your cash flow issues meet the demands of your debt service requirements?
- Payment due dates and timing requirements for deposit to trust accounts, with a timely reminder from your trustee (monthly, semi-annual, other)
- Credits to issuer by trustee for interest earnings or capitalized interest
- Fixed rate vs. variable rate debt service processes...semi-annual, monthly, or weekly payments
- Debt service schedules
- Sinking fund requirements
- DTC Book-Entry-Only and your bondholders

Compliance and On-Going Certification Requirements

Monitoring and processing those covenant requirements under the Indenture pertaining to continuing disclosure, statements and certificates to be provided the trustee and others, to ensure your good standing in the market

- Insurance certificates or statements...do timing requirements meet your practices
- Annual budgets due 60 days after adoption
- Continuing Disclosure...the preparation of reports, and their subsequent delivery to CPO or NRMSIR's
- Arbitrage Rebate requirements... annual calculations during construction to better gauge potential liabilities or shortfalls
- Information/certifications to rating agencies or credit facilities
- Change in authorized signatories

Organization is the Key to Sanity

I now have a five-inch thick closing transcript binder, with no pictures. How do I organize what is important for the next thirty years?

- Begin the organization process before the bonds are sold in the document preparation stage
- Use your professionals; trustee, financial advisor, legal counsel, underwriter, and others. Ask questions of everyone
- The trustee must organize and track all their required duties which typically involve the issuer, get them to share this information with you
- Look for electronic solutions to aid in the tracking of your bond proceeds as they are invested and spent
- Attend California Debt and Investment Advisory Commission Seminars on a regular basis

Closing Thoughts and Questions About Your On-Going Duties as Issuer, and Your Trustee Relationship

- This long-term relationship with my bondholders and financing professionals should begin prior to the closing and early on in the document review process.
- Many parties move on after the closing. The Issuer and the Trustee are actively involved for the life of the bonds.
- The trustee performs many administrative functions on my behalf, which will directly reflect on me, the City/Agency and our bond holders. How am I selecting my trustee (my 30 year partner)?
- Big thick legal documents looking pretty scary. How do I organize what is important for the next thirty years? Can my trustee help?
- What tools or resources does my trustee or other professionals have which might blend in with what I need to make my life easier?
- How can I hear more about this fabulous topic from this informed professional?

Don't Hesitate to Contact me with your questions

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